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INTERNATIONAL CITY MANAGERS' ASSOCIATION  
1313 EAST 60TH STREET - CHICAGO 37, ILLINOIS

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MUNICIPAL PURCHASING FROM LOCAL MERCHANTS

When and under what conditions may a municipality show preference to local merchants in placing orders?

City officials are often expected to patronize home-town merchants in the purchase of municipal supplies on the basis that local dealers pay part of the taxes or because public funds spent locally will benefit the city as a whole. Neither of these arguments can be justified. A city government should aim to secure the best available quality and service at the lowest price. A city that favors local dealers may penalize the general taxpaying public in the form of reduced municipal service or of increased taxes. It is therefore important that nothing should prevent the purchasing agent from obtaining as widespread competition as possible and from basing all purchases on price, quality, and service as determined by such competition. Local suppliers should receive orders only when their prices and other conditions of sale are equal to, or better than, those of out-of-town bidders.

Emergency Orders. Purchasing from local merchants without securing outside bids is often justified in the case of an emergency. A hospital or garage or other municipal activity operating on a 24-hour schedule may have to purchase an emergency item the need for which could not have been foreseen far enough ahead of time to permit following the preferred routine. Such orders should be handled by the purchasing agent if possible. But if the purchasing agent is not available, the department head should have authority to solicit bids by telephone or otherwise, awarding the order to the lowest responsible bidder for immediate delivery. The department head should report his purchase to the purchasing agent by transmitting his confirming requisition for the item purchased so that the purchasing agent can issue a purchase order to confirm the transaction.

Occasionally it may be necessary to make a direct purchase without securing bids, especially during hours when the city hall offices are not open and when delay would endanger life, property, or equipment. When this procedure is followed, a written explanation of the circumstances, carrying the approval of the head of the using department, should accompany the duplicate of the emergency order sent to the purchasing agent.

The problem in emergency purchases is to confine such orders to real emergencies and to prevent such purchases as an excuse to buy from local merchants. Such purchases can be held to a minimum by taking definite steps to discourage the practice. Then too a financial limit may be put on orders placed without bids. In some cities the limit is \$100 while in other cities the limit is as low as \$2, or \$5. Winnetka, Illinois, for example, places a \$5 limit on emergency orders. If the item needed costs more than \$5, the purchasing agent or his secretary telephones several sources in a nearby large city. Where this cannot be done an occasional check would indicate whether local prices are out of line.

Small Purchases. Local merchants may be given preference in small cities when only limited quantities of such items as tools, drugs, or auto repair parts are purchased occasionally. Paper work involved in competitive bidding

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on small orders eventually will be reflected in the price. The question is, how can the paper work be reduced in order to secure the best quality at the lowest price? Also, how can such business best be distributed among a number of local dealers without causing bickering or hard feelings?

One way is for the purchasing agent to bring the local hardware merchants together and work out a plan to divide the business as equally as possible among them. For example, in purchasing drugs the city may rotate the business every three months or every year, buying from one druggist at a time so as to simplify purchasing and make it necessary for only one druggist at a time to carry the necessary stock. Other items, such as auto repair parts, may be divided as equally as practicable without rotation.

The next step is to arrive at a satisfactory price. The city is interested in getting a price at least comparable to that obtainable from the wholesalers, while recognizing the validity of the merchants' need for some profit. If merchants make a profit of 25 to 30 per cent, they should allow a 15 to 20 per cent discount. If a 15 per cent discount is agreed upon, the city should take the discount from the monthly bills even though not indicated on the bill, plus a possible 2 per cent cash discount. Generally the merchants will be agreeable to such a plan because they know that when the sellers' market disappears even a small city can purchase most items at wholesale prices. It is important, however, that local vendors know that the city will purchase wherever it can get the best quality and price. Failure to adhere to such a policy encourages collusion among local dealers. The simple fact that the city makes an occasional check on prices usually is sufficient to keep local vendors in line.

Price Agreement Plan. Many cities find that a "price agreement" plan is preferable to the above plan. Such a plan is used on items for which there is a recurring need in small quantities and on which a city can get bids locally as well as outside. Under such a plan a vendor obligates himself to supply all requirements for a specified commodity of a specified quality during the period of the agreement. The city does not obligate itself to purchase or to accept delivery of any definite quantity, but gives the vendor an estimate of its probable needs as a guide to the amount that may be purchased. The price may be established for the period of the agreement.

Under the "price agreement" plan the city is able to get a lower unit cost because the price is the result of competitive bidding based upon the total estimated quantity required. When such contracts are let, receipts are issued by the vendor with each delivery, and at the end of each month the department head prepares a receiving ticket which is forwarded to the purchasing agent who authorizes payment after checking the receiving ticket against the vendor's invoice. This plan makes it possible for the city to buy in small quantities as needed and eliminates the need for excessive storage facilities.

Local Dealers Gain From Centralized Purchasing. Local merchants have more to gain than to lose from competitive bidding because they have more opportunity to bid than they do when purchases are made by letter, by catalog, or by contracting a favored dealer--practices common in cities where purchasing is not centralized. Several years ago the purchasing agent of a city of 75,000 made a study which showed that a ratio of 5.2 local bidders to 1.2 outside bidders submitted bids under centralized purchasing as compared to a ratio of 3.2 to 2.1 under the decentralized plan previously used in that city. This study also showed that more than 80 per cent of the value of all items on which local vendors bid were bought locally. Two-thirds of the total dollar volume was purchased locally and on nearly one-half of the remaining one-third there were no local bidders.